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SUBJECT: Bilateral Energy Dialogue Back On Track

¶1. Summary. (SBU) A U.S. Department of Energy Delegation led by Principal Deputy Assistant Secretary (PDAS) for Policy and International Affairs Katharine Fredriksen reached agreement with the Government of Indonesia (GOI) to resume the U.S.-Indonesia bilateral Energy Policy Dialogue (EPD), which has been dormant since the last meeting in Jakarta in August 2005. In a series of meetings on June 6 and 7 with top GOI energy officials PDAS Fredriksen received the clear message that Indonesia wishes to re-engage on the EPD. She proposed holding a meeting in September or October 2007, perhaps in conjunction with a mission to Indonesia by the U.S.-ASEAN Business Council/U.S.-Indonesia Business Council to ensure extensive private sector participation. Minister of Energy and Mineral Resources Purnomo Yusgiantoro said Director General of Oil and Gas Luluk Sumiarso would lead the talks for the GOI. The Indonesians offered to host the meeting in Jakarta or Bali to discuss coal and coal bed methane (CBM), nuclear power, electricity, biofuels and renewable energy, oil and natural gas development, and the environment and energy efficiency. PDAS Fredriksen said the GOI's broad draft agenda for the EPD would require a robust U.S. delegation, possibly including several DOE offices, Ex-Im Bank, OPIC, Environmental Protection Agency, Department of Interior, and the U.S. Geological Survey. End Summary.

Meeting with Energy Minister Purnomo

¶2. (SBU) A U.S. Department of Energy Delegation visited Jakarta from June 5 to 9 led by Principal Deputy Assistant Secretary for Policy and International Affairs Katharine Fredriksen. The delegation reached agreement with the GOI to resume the U.S.-Indonesia bilateral EPD, which has been dormant since the last meeting in Jakarta in August 2005. The DOE delegation reached tentative agreement on a broad and ambitious agenda encompassing a gamut of issues from biofuels to nuclear power (see para 6). Minister Purnomo quickly accepted PDAS Fredriksen's offer to resume the EPD when he received the delegation on June 7. Purnomo said the GOI would welcome talks on technical cooperation and policy dialogue on a host of topics. In particular he mentioned the desire to discuss best practices for fiscal policy in the upstream regulatory environment to properly align incentives that promote increased petroleum exploration and production, which has been on a steady eleven year decline. PDAS Fredriksen emphasized the importance that the USG attaches to energy security and the vital role that a healthy Indonesian energy sector plays in that strategy. Purnomo said that while petroleum and coal will remain crucial to the GOI's own energy security needs, it is also determined to develop new fuel sources like biofuels, CBM, coal liquefaction, and nuclear power.

¶3. (SBU) PDAS Fredriksen said that she hoped that Assisant Secretary of Policy and International Affairs Karen Harbert would lead the U.S. delegation. If she was unavailable then PDAS Fredriksen would lead. Regardless of the head of delegation, she said the agenda would require a robust U.S. delegation including several offices of DOE, encompassing clean coal technology, nuclear energy, electricity, and energy data. She said, for example, the Department of Interior's Minerals Management Service, which controls oil and gas and geothermal leases on the U.S. continental shelf and federal land, could best speak about U.S. best practices in the upstream exploration and production sector. PDAS Fredriksen also said that any discussion of the environmental aspects of energy production should include the U.S. Environmental Protection Agency.

¶4. (SBU) Fredriksen closed by offering to host a follow-on visit to the U.S. by Purnomo. In response to Purnomo's comments on the GOI's determination to boost electricity generation through nuclear power and more coal fired power plants, Fredriksen offered the possibility of a tour of the Calvert Cliffs nuclear plant and the DOE's National Energy Technology Laboratory, as well as the National Renewable Energy Laboratory. Purnomo also asked that the USG consider including a member of the FERC on the EPD delegation. In closing the meeting Purnomo named Director General of Oil and Gas Luluk Sumiarso as the GOI delegation leader.

Meeting with Oil and Gas DG Luluk Sumiarso

¶5. (SBU) The DOE delegation met later in the afternoon on June 7 with Sumiarso where we agreed on a preliminary format and named respective sherpas to do the working level preparations. Sumiarso named Edy Hermantoro, Director of Oil and Gas Program Preparation as the GOI Sherpa, while PDAS Fredriksen nominated herself and Tom Cutler on her staff. Both sides agreed that the business community

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should be integrated into the talks but also that the two governments need time devoted purely to policy discussions without business at the table to promote candor and free exchange.

¶6. (SBU) On June 8, DOE delegation members engaged with Hermantoro for over 90 minutes sharing ideas and collecting feedback on the initial draft agenda tabled by DOE. The outcome of this meeting was the draft agenda below, which both sides agreed still needs to be approved by DOE headquarters in Washington and the MEMR.

Day One

II. Plenary Opening Session (industry invited)

- Address by Minister Purnomo.
- Address by Head of U.S. Delegation.
- Opening remarks by Indonesian business leader.
- Opening remarks by U.S. business leader.

III. Group Photo Session

III. Energy Outlook Presentations. (industry invited).

- World Energy Outlook by U.S. experts.
- Southeast Asia Energy Outlook by Indonesian experts.
- U.S. Energy Outlook by U.S. experts.
- Indonesian Energy Outlook by Indonesian experts.

IV. Lunch (industry invited)

V. Concurrent Break-Out Sessions (G-to-G only)

Room 1 - Coal and Coal Bed Methane.

Room 2 - Electricity and Nuclear Power.

Room 3 - Biofuels and Alternative Energy.

Room 4 - Oil and Natural Gas Sector Development.

Room 5 - Environment and Energy Efficiency.

VI. Welcoming Dinner.

Day Two

VII. Reports from Break Out Sessions (G-to-G only).

VIII. Energy Trade and Investment (industry invited).

IX. Closing remarks by heads of delegations (industry invited).

X. Press Conference

XI. Closing Luncheon (industry invited).

Day Three

The Indonesians suggested the following Site Visit options:

- LEMIGAS Oil and Gas Laboratory in Jakarta.
- LEMIGAS CBM Project, Jakarta.
- PT Rajawali Biofuels Plant, Jakarta.
- IPP or Electricity Power Plant in North Jakarta or Banten Province.
- Gas Pipeline at Bojonegara, Banten.
- Suralaya Coal-Fired Power Plant, Banten.
- Mini NPP Project, Serpong, Tangeran, Banten.
- Geothermal Power Plant (Kamojang or Gunung Salak) West Java.

¶ 7. (SBU) The U.S. delegation had broached the idea of convening the EPD in September or October. The GOI representatives welcomed that time frame but cautioned that most Indonesians will be fasting for Ramadan from 13 September until 15 October. In our experience this time of year is less than optimal in terms of productivity. Consequently, Embassy recommends that we schedule the EPD outside of those four weeks. As has also been the GOI custom in recent years to aid the struggling tourism sector, our GOI interlocutors made several references to the possibility of holding the EPD in Bali. DOE delegation members said a Bali venue complicates participation by U.S. private sector participants, who are based in Jakarta and would be reluctant to fly to Bali for the limited amount of time

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allocated for the their participation in the talks. Our GOI interlocutors took this onboard with equanimity, but are likely to continue pushing to help the Bali tourism sector.

¶ 8. (SBU) Comment: Conditions in the energy sector in Indonesia are far from ideal, but the GOI has made some bold policy moves in the last two years. Our GOI interlocutors are the first to admit they still have much work to do in the energy sector. Still, we believe the Yudhoyono administration is genuinely committed to improving the policy and investment climate for foreign energy companies, which will be vital to reaching the GOI's goal of 1.3 million bpd petroleum production. We have observed a noticeable upturn in optimism from U.S. energy companies in the last six to eight months.

They are broadly supportive of President Yudhoyono and encouraged by the GOI's rhetorical commitment to improved execution and efficiency by the upstream regulator. We believe reinvigorating the EPD will be a concrete and warmly welcomed sign of USG commitment to helping Indonesia meet its energy security needs while lowering poverty through increased economic growth. Our GOI interlocutors reacted uniformly with enthusiasm to the idea of technical and policy formulation cooperation. We encourage Washington agencies to participate as broadly as possible.

¶ 9. PDAS Fredriksen cleared this cable.

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